Education Secretary Arne Duncan
Testifying before the House Education and Workforce Committee

April 29, 2014

Thank you, Mr. Chairman.

And thank you, Mr. Secretary, for taking the time to come speak with us today.

I am very concerned about the state of our federal student loan system. Currently almost 15 percent of borrowers will default within three years and many more over the life of their loan.

A portion of these defaults come from excessive borrowing, partly driven by the high cost of college today. These are serious problems that need to be addressed by this committee.

Many other defaults are more easily avoided, and in this regard, we must consider how we structure the repayment process for student loans.

As Sue Dynarski, an economist at the University of Michigan, pointed out in a recent paper, the *vast* majority of students do not borrow large amounts of money – yet many of these students are still defaulting at high rates. In fact, the average loan in default is just $14,000.

She argues that, for these students, “we do not have a *debt* crisis but rather a *repayment* crisis. The current system turns reasonable levels of *debt* into crippling *payment* burdens that can prevent young workers from attaining financial independence and stability.”

She advocates for a simple, streamlined system where payment amounts are linked to a borrower’s income, automatically protecting them during periods when their income is lower.

As you know, we have options like this now in the federal system: income-contingent repayment and income-based repayment. President Obama has added to the mix with his *Pay as you Earn* proposal that reduced the amount borrowers have to pay and provides forgiveness after 20 years.

However, I’m very concerned about the direction the Administration has chosen to go with this idea.

Anyone who has used our federal loan system knows that it’s a bureaucratic nightmare, so finding these income-driven options, let alone using them, deters most borrowers. At the same time, by providing generous forgiveness, the *Pay as you Earn* option is likely contributing to significant overborrowing, particularly amongst graduate students.

As Jordan Weissman wrote in *The Atlantic* last year, “We have a student debt system that leaves the most vulnerable, least sophisticated borrowers to fend for themselves. And we're seeing the unfortunate results in our default rates. Meanwhile, the high debt levels among borrowers in IBR suggest that many of them are probably former graduate students, who are generally better equipped to navigate the federal government's byzantine repayment system.”

I know you proposed changes in your budget to scale back some of the forgiveness options. However, I’m not sure if those changes go far enough. In a recent report, Beth Akers and Matt Chingos of the Brookings Institution advocate for doing away with the forgiveness portion of these programs to protect taxpayers and reward prudent borrowing.

I have advocated, through my EXCEL Act legislation, for streamlining the federal loan system by linking payments to income for all borrowers in a way that is simple and intuitive. At the same time, my bill eliminates the forgiveness provisions of the current programs while still offering strong protections to borrowers with low post-graduate earnings.

The current program is, sadly, flipped on its head: the bureaucracy prevents most students from taking advantage of protections they need while the forgiveness rewards those with the largest debts.

We need the opposite: A streamlined system that protects all borrowers from default while being fair, fiscally sustainable, and rewarding prudent borrowing.

I was simply hoping that you could offer your thoughts on these comments.